Energy Update

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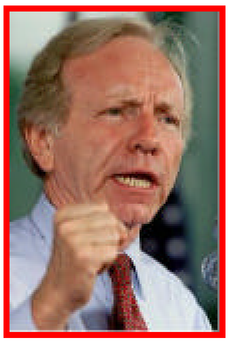
Lieberman visits Assembly, pledges help from DC



Senator Joe Lieberman (D-CT), recently the Democratic nominee for Vice President of the United States, visited the Assembly Thursday and promised lawmakers he would do everything possible in Washington, reaching across party lines, to help California solve its energy crisis.

Cheney: "No" to price caps

Want price caps on wholesale electricity to staunch the bleeding of billions from California? Not going to happen, Vice President Dick Cheney insists. Don't waste your energy thinking about it. "Frankly, California is looked on by many folks as a classic example of the kinds of problems that arise when you do use price caps," Cheney said in a telephone interview Wednesday.

Now Cheney is heading the task force advising President Bush on how the federal government should help California and the West survive the current energy crisis. And you can bet that price controls will not be among his recommendations.

Davis calls for approval of San Jose plant

Attempting to show that no region in California is safe from sacrifice, Gov. Gray Davis on Wednesday called for quick state approval of Calpine's controversial power plant proposed for the Silicon Valley. The governor's action locks him in combat with the San Jose City Council, which has unanimously rejected the plant, and Cisco Systems, the computer networking giant that wants to build its worldwide headquarters on adjacent land.

California gouged, legislative hearings told

Citing what they called a textbook example of market manipulation, energy experts told state legislators Wednesday that a Texas company hoarded space on a key natural gas pipeline into California, causing electricity prices to skyrocket. Because natural gas is burned by many power plants to produce electricity, a move by El Paso Natural Gas Co. to sell pipeline capacity rights directly to an affiliate caused an increase in electricity prices, energy consultants told the Assembly Subcommittee on Energy Oversight, chaired by Assemblymember Darrell Steinberg (D-Sacramento).

Much of the pipeline capacity subsequently went unused, and SCE alone had to pay $750 million more as a result of higher gas prices last year, they estimated.

Power producers, energy marketers and some Republican lawmakers have argued that the surge in prices is not the result of any manipulation. Rather, they say, it is the logical consequence of California's refusal to build enough power plants to meet its needs, which has led to a dependence on wholesale power markets.

Experts offered what they said was specific evidence of market manipulation. The Brattle Group consultants told lawmakers that after Pacific Gas & Electric Co. chose to relinquish the capacity it owned on the El Paso pipeline four years ago; it reverted back to the Texas company.

In a move that surprised industry observers, El Paso then sold the entire block to Dynegy, another Texas energy firm. The amount, one-third of the pipeline capacity, was clearly more than Dynegy would ever need or could ever sell to other marketers, the experts said.

Dynegy soon began charging what the experts said were unreasonably high rates for the right to use its capacity. That immediately caused the other main pipeline into California, which connects the state with the Pacific Northwest, to fill up. Gas prices at the border soon doubled compared to prices for the same commodity in the Texas basin.

Yet that spike was nothing compared to what happened last year, when El Paso awarded the capacity contract to its sister company, El Paso Merchant Energy. That deal, combined with a surge in demand for natural gas caused by low electricity supplies, drove gas prices as much as 12 times as high as those in Texas. Never in American history had one company had such control over gas distribution into any region without regulatory checks on its profits, the experts said.

California lawmakers have no authority over interstate gas pipelines. The lines are regulated by the Federal Energy Regulatory Commission, which is scheduled to begin proceedings of its own next week into the claims of anti-competitive behavior on the pipeline.

State Senate panel probes energy prices

In what is shaping up as a war on private generators, lawmakers Wednesday took on power companies that economists say have gouged the state billions of dollars by manipulating the electricity market.

A special Senate committee began its inquiry into allegations of price gouging a day after Gov. Gray Davis said state treasury purchases increased markedly in recent weeks -- to more than $70 million a day.

Stanford economist Frank Wolak, who analyzed the electricity market for the managers of California's power grid, told lawmakers that today's high prices could only be produced by a noncompetitive market in which energy companies influence prices with how they supply electricity.

Market manipulation continues "by basically almost all of the market participants," Wolak testified before a special Senate committee set up to investigate the wholesale electricity market.

The Independent System Operator, the agency that manages the state's transmission grid, says the companies overcharged the state about $6.8 billion last year and is asking federal regulators to order refunds.

In addition, Severin Borenstein, director of the University of California Energy Institute, said he is preparing a study that will show electricity prices ran from $5 billion to $7 billion higher during summer months than what would be produced in a competitive market.

Economists say energy companies can influence the market by restricting output or making exceptionally high bids in order to drive up prices.

Wolak, the Stanford economist, said the electricity market is ideal for such behavior because electricity cannot be stored, meaning prices are directly related to supply and demand pressures at the moment. Furthermore, Wolak said, the way electricity is handled prevents consumers from seeing the prices right away and so doesn't allow users to react immediately to curb use.

"That's why we have been regulating it for the last 100 years," Wolak said.

Energy companies say they are not doing anything wrong. Gary Ackerman, the director of the Western Power Trading Forum, said the accusations of market power exercise are unfounded.

Ackerman said there is a business reason that plants are not fully utilized in times of shortage, and that rationale has troubling implications for this summer. Generators tend to reduce their output when prices are high to protect themselves from the possibility they might have to buy power, he said.

Here's why: Generators often sell a portion of their electricity under contracts and must provide that power. Ackerman said these companies typically keep some of their generation capacity in reserve in case one of their units breaks down.

Duke Energy, one of the members of the Western Power Trading Forum, lost $1 million an hour during a plant breakdown last June because it had to buy electricity on the spot market to meet its commitments, Ackerman said. Although the practice makes business sense, it also means that the higher prices go and the closer California comes to blackouts, the more likely it is power companies will generate even less electricity, according to Ackerman.

Energy costs windfall for cities, counties?

In one unexpected impact of the nearly 5-month-old crisis, the accounts of more than 100 cities and a handful of counties have been filling with extra cash from taxes they levy on residents and businesses for their utility costs.

State Sen. Chuck Poochigian, R-Fresno, is calling the extra revenues a windfall for public agencies and says utility customers who live in cities such as Firebaugh, Sanger, Porterville and Tulare, where utility services are taxed, should be spared the double whammy of higher taxes and higher rates. Poochigian is proposing that utility taxes be based on how much electricity and natural gas customers use, rather than on how much they pay for it.

Most of the state's largest cities levy a utility user tax on electricity, gas, telephone, cable television and water services, though Fresno does not. Many small cities in the Valley rely heavily on the tax -- which can range from 1% to 12% -- to fund police and fire services.

The Fresno Republican's plan -- outlined in Senate bill 62X -- has drawn the ire of cities that contend their own costs for energy have risen beyond a point where they even notice financial gain from the extra tax revenues. City officials also are irked that the state would meddle with one of the only revenue sources they can spend without mandates from Sacramento.

Davis Edison deal could change

Gov. Gray Davis indicated Wednesday that he may need to alter the agreement to purchase Southern California Edison Co.'s transmission lines if he wants legislators to approve the deal. Though the Democratic governor declined to discuss particulars, he said he asked Senate leaders to appoint a special committee dedicated to resolving disagreements between the administration and lawmakers. Many provisions of the memorandum of understanding, the document that lays out the terms of the Edison deal, must be approved by the Legislature and the state Public Utilities Commission.

What Others Say

Sen. Dianne Feinstein, D-Calf., is about to introduce a bill that would force FERC to impose temporary caps on wholesale rates. These caps would apply to the entire Western energy market, from Colorado to the Pacific Ocean. This legislation would stop the rape of the West. It's critically important for all of California's congressional delegation to support the Feinstein-Smith bill. –*SD Union Tribune*